

# Introduction

Every firm needs, but often overlooks, an effective plan to recognize leadership, expand ownership, and/or perpetuate the firm. The means to accomplish those goals is the activity called *ownership transition*. This book will help you, the design professional, to understand the essentials of ownership transition: what its elements are, how to plan for it, and how to develop and implement a successful ownership transition program. Throughout the book you will find terms and phrases that may be either new to you or are used in a new context. Refer to the definitions provided in the Glossary at the end of the book as you encounter them.

This book was written for design professionals: architects, interior designers, landscape architects, planners and urban designers, graphic designers, engineers, and others who are active in designing the built environment and the objects in it. Design professionals are similar to other people in most ways, and their businesses are similar to other businesses in most ways as well. There are, however, certain distinguishing features about design professionals and what they do that should be noted as we consider ownership transition.

One distinguishing feature is that design professionals provide services, not products. The services they provide—architecture, interior design, landscape architecture, planning, engineering, graphic design—are the result of their innate talents, augmented by knowledge gained through education and practical experience. For those design professionals who practice a “learned profession”—especially architects and engineers—the achievement of prescribed levels of education and practical experience is necessary to secure the state-sanctioned registration that is required to practice.

Beyond the education, experience, and licensure necessary to offer a professional service, perhaps the most important difference between providing services and products relates to the assets required to do either. In general, product-based businesses require substantial fixed, or *hard*, assets to produce the product being offered to the marketplace: property, equipment, inventory, and so on. Professional service firms need people. In professional service firms, the so-called real assets (the assets that produce value) walk out the door every night; it is imperative that they walk back in the next day. That difference is particularly important with respect to the individuals whose continuing efforts are required by the firm to ensure its success, presently and in the future. A successful ownership transition plan can attract and retain the people that the firm will need, to practice successfully now and to make ownership transition possible in the future.

### **What Is Ownership Transition?**

The process by which the current owners put, or begin the process of putting, another group of

owners in place is called *ownership transition*. Owners provide capital, marketing, management, quality, and leadership to their firms. If the current owners wish their firm to continue to survive and thrive, it is imperative that they ensure that those elements will be provided to the firm in the future. Ownership transition can happen in an unplanned, abrupt way, such as when a single owner dies suddenly. The transition has the best potential for achieving the multiple objectives the current owner(s) may have when it is planned and, subsequently, carefully implemented. Some of those objectives are described in the following subsections.

## **Why Is Ownership Transition Necessary?**

### **Growth**

As firms grow, most find that they cannot simply add staff at the bottom. They need to add principals at the top as well, to secure and manage client relationships and to provide necessary project management, expertise, and internal leadership. It is possible to employ professionals who enjoy, and are compensated for, principal-level responsibilities without having equity ownership. However, since responsibilities at the highest level are ordinarily associated with ownership, we will use the term *principal* and *owner* in this discussion interchangeably. Firm growth spurs the need to expand ownership. Ownership expansion generally occurs in three ways: (i) by elevating current employees who are qualified candidates to principal status and transferring ownership to them; (ii) by recruiting individuals from outside the firm to become owners; and (iii) by affili-



## CHECKLIST

### Why Is Ownership Transition Necessary?

1. Growth
2. Expansion
3. Retirement
4. New expertise
5. Continuity
6. Contact with the marketplace

ating, through merger or acquisition, with another firm that already has individuals suited for ownership.

### Expansion

Firms that wish to expand geographically or into markets within their geographic sphere of influence can do so effectively only if such expansions are led by entrepreneurial professionals—those who can do what principals do.

### Retirement

Ownership transition becomes an important matter when principals begin to think about their own retirement or, equally important, about how to realize the (usually increased) value of the capital investment they have made in their firms. Certain things become very clear at those junctures. Unless principals liquidate their firms, suffering the economic penalties that usually occur, retiring principals prepare for the successful continuation of their firms. The firm will not be able to continue successfully without other capable principals to lead and manage the firm. Further, without a new generation of principals in place, there will be no one to whom the retiring principal can transfer (i.e., sell) ownership.

### New Expertise

Firms that seek to develop new expertise or enter new markets, and that do not have on-staff employees with that potential, frequently seek to acquire the necessary skill sets by bringing in new, principal-level candidates. As a condition of joining the firm, these candidates will want principal status, and they will need it to be effective in the marketplace and in

the firm. The process of ownership transition can facilitate the transfer of ownership to some candidates, while giving the firm's owners time to evaluate the newcomers.

### **Continuity**

Ownership transition fosters continuity of a firm. Many design professionals develop viable practices over the course of their careers and hope to have their firms stay in business beyond their own tenure. Transferring ownership to the next generation ensures continued service to valued clients, a stable workplace for valued employees, and a firm that continues into the future.

### **Keeping in Touch with the Marketplace**

The marketplace plays a major role in what design professionals are able to accomplish. If there are no buyers for professional services, there can be no service providers. Design professionals must connect with the marketplace—the buyers of services. They must establish and maintain relationships with their clients so that their firms will enjoy opportunities to provide services. Such services have the potential to result in successful relationships, successful projects, and financial reward.

Sometimes, as they get older, design professionals postpone thinking about retirement in any specific way, or consciously opt not to retire. Their clients generally retire at the conventional retirement age, usually between 65 and 70. Their clients' successors frequently choose to hire and work with their own peers, not those of their former superiors. With certain notable exceptions, especially among the design "gurus," this syndrome commonly results in design

professionals losing touch with the marketplace as they approach normal retirement age. A firm that loses touch with the marketplace loses its *raison d'être* and, ultimately, will no longer sustain itself. Ownership transition allows the next generation of professionals in a firm to move into leadership roles, with increased visibility and responsibility for marketing. Bringing new members into the ownership circle often helps the firm to maintain its understanding of and connection to the marketplace.